

Message Text

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C O N F I D E N T I A L MEXICO 2676

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SUBJ : RECENT ECONOMIC DEVELOPMENTS

1. SUMMARY . PRESIDENT LOPEZ- PORTILLO HAS MET WITH LABOR AND MANAGEMENT GROUPS, MAKING NON-SPECIFIC COMMENTS. MEANWHILE, LOWER LEVELS OF GOM APPEAR TO BE WORKING OUT DETAILS OF INTEREST RATE CHANGES AND MARCH 14 SPEECHES AT BANKERS' CONVENTION. END SUMMARY.

2. LOPEZ-PORTILLO HAS MADE A NUMBER OF PUBLIC STATEMENTS RECENTLY, BUT HIS COMMENTS HAVE BEEN GENERAL IN NATURE. ON FEB 26, JLP TOLD LABOR CONGRESS THAT THEIR STRUGGLE COULD FALL APART IF ADEQUATE ATTENTION IS NOT PAID TO THE JUST DEMANDS OF NATIONAL MAJORITIES. IT IS NOT CLEAR WHO THESE MAJORITIES ARE. ON FEB 27, JLP TOLD THE CONGRESS OF THE REVOLUTIONARY WORKERS' CONFEDERATION THAT SOCIAL CHAOS SHOULD BE AVOIDED, THAT FEAR OF INJUSTICE MUST NOT AFFECT PRODUCTION, AND THAT SPECULATORS AND THE LIKE CAN ALSO IMPEDE OUTPUT. ON FEB 28, JLP OPENED A MEETING OF BUSINESS ORGANIZATIONS AND TOLD THEM THE ERA OF HIGH PROFITS AND THE PRIVILEGES OF AN ARTIFICIAL STABILITY HAD ENDED. ACCORDING TO ONE PARTICIPANT IN
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THE MEETING, THE PRESIDENT ONCE MORE EMPHASIZED THE CONTRIBUTION OF LABOR BY ITS MODEST WAGE DEMANDS AND CALLED ON BUSINESS TO COMPLETE THE NEGOTIATIONS FOR THE PRODUCTION OF THE 90 BASIC CONSUMER PRODUCTS (SEE MEXICO 1018).

3. WHILE THE PRESIDENT HAS RESTRICTED HIMSELF TO

RATHER VAGUE COMMENTS APPARENTLY AIMED AT MAINTAINING AND REINFORCING CONFIDENCE, LOWER LEVEL OFFICIALS ARE WORKING ON DETAILS OF SPECIFIC ECONOMIC REFORMS.

4. SENIOR FINANCE MINISTRY OFFICIAL TOLD FINATT THAT DISCUSSIONS ON INTEREST RATE REFORMS BETWEEN CENTRAL BANK OFFICIALS AND PRIVATE BANKERS ARE CONTINUING. LATTER ARE STILL SOMEWHAT RELUCTANT TO ACCEPT HIGHER INTEREST RATES ON THE GROUNDS THAT ANY DRASTIC SHIFTS MIGHT UPSET THE TRANQUILITY THAT NOW EXISTS IN MONEY AND EXCHANGE MARKETS. GOM OFFICIALS NOW CONSIDERING SLOW UPWARD MOVEMENTS IN INTEREST RATES, RATHER THAN ABRUPT CHANGES. PETRO-BONDS ALSO CLOSE TO BEING ISSUED AND BANKS ARE TO BE MARKETING AGENTS.

5. THIS OFFICIAL SAID THAT FINANCE MINISTER'S MARCH 14 SPEECH AT BANKER'S CONVENTION SHOULD BE REASONABLY DETAILED, AND THAT IT MAY PREDICT A PUBLIC DEFICIT LOWER THAN THAT ANNOUNCED IN DECEMBER. HE ALSO NOTED THAT THE SPEECH WOULD BE REVISED UP TO THE DAY BEFORE IT IS TO BE DELIVERED.

6. HEAD OF ECONOMIC STUDIES DEPARTMENT AT MINISTRY OF PROGRAMMING AND BUDGET TOLD FINATT THAT PUBLIC SECTOR BUDGET DEFICIT IS LIKELY TO BE WITHIN FUND AGREEMENT TARGET THIS YEAR. HE NOTED THAT DEFICIT LAST YEAR WAS EQUIVALENT OF 10.2 PERCENT OF GDP WHEREAS THIS YEAR IT SHOULD DECLINE TO CLOSE TO SEVEN PERCENT. THIS OFFICIAL ALSO TENDED TO DOWNPLAY ANY DIFFERENCES BETWEEN THE CONFIDENTIAL

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SPENDERS AND THOSE WORRIED ABOUT EXTERNAL RESTRAINTS. HE MAINTAINED THAT CARLOS TELLO IS CONSCIOUS OF THE IMPACT ON INFLATION CAUSED BY EXCESSIVE PUBLIC SECTOR SPENDING, AND IN THIS CONNECTION, EMPHASIZED THE NEED TO INCREASE DOMESTIC SAVINGS TO FINANCE A HIGHER LEVEL OF SPENDING.

7. COMMENTS BY LOCAL BUSINESSMEN TEND TO REINFORCE VIEWS SET FORTH IN MEXICO 1566. WE CONTINUE TO THEAR REPORTS OF LAYOFFS AND REDUCED OUTPUT. ASSUMING THAT GDP DID NOT INCREASE IN THE SECOND HALF OF 1976, AS IMPLIED IN THE BANK OF MEXICO ANNUAL REPORT (SEE MEXICO 2328), IT IS VERY LIKELY THAT OUPUT IS LOWER NOW THAN IN FIRST QUARTER OF 1976. BUSINESSMEN CONTINUE TO INDICATE A RELUCTANCE TO INVEST.

8. RECENT VISITING BANKERS HAVE SAID THAT THEY ARE RELUCTANT TO INCREASE THEIR EXPOSURE IN MEXICO. GENERALIZING SOMEWHAT, THEY SEEM TO BE DECIDING WHETHER

TO HOLD WITH WHAT THEY HAVE, OR REDUCE. MOST SEEM TO BE WILLING TO MAINTAIN THEIR EXPOSURE. FEW SEEM TO BE WILLING INCREASE.

9. FINANCE MINISTER MOCTZUMA, IN MONTERREY SPEECH, SAID THAT THE PESO WOULD CONTINUE TO FLOAT UNTIL THE EXTERNAL AND INTERNAL FACTORS THAT CAUSED THE DEVALUATION DISAPPEARED. THIS COMMITMENT TO CONTINUED FLOATING WAS SAID TO CAUSE AN INCREASE IN THE OFFER OF DOLLARS IN THE EXCHANGE MARKET ON THE FOLLOWING DAY.

10. MILTON FRIEDMAN WAS IN MONTERREY AT THE SAME TIME BUT FOR A SEPARATE MEETING AND SAID MEXICO SHOULD REDUCE PUBLIC SECTOR EXPENDITURES, SELL OFF PUBLIC SECTOR ENTERPRISES AND ELIMINATE TRADE BARRIERS. REPORTERS ASKED MOCTEZUMA TO COMMENT, BUT THE LATTER DECLINED SAYING HE HAD NOT HAD TIME TO STUDY FRIEDMAN'S SPEECH. CONFIDENTIAL

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